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2021 Outlook

Hirshberg Entrepreneurial Institute

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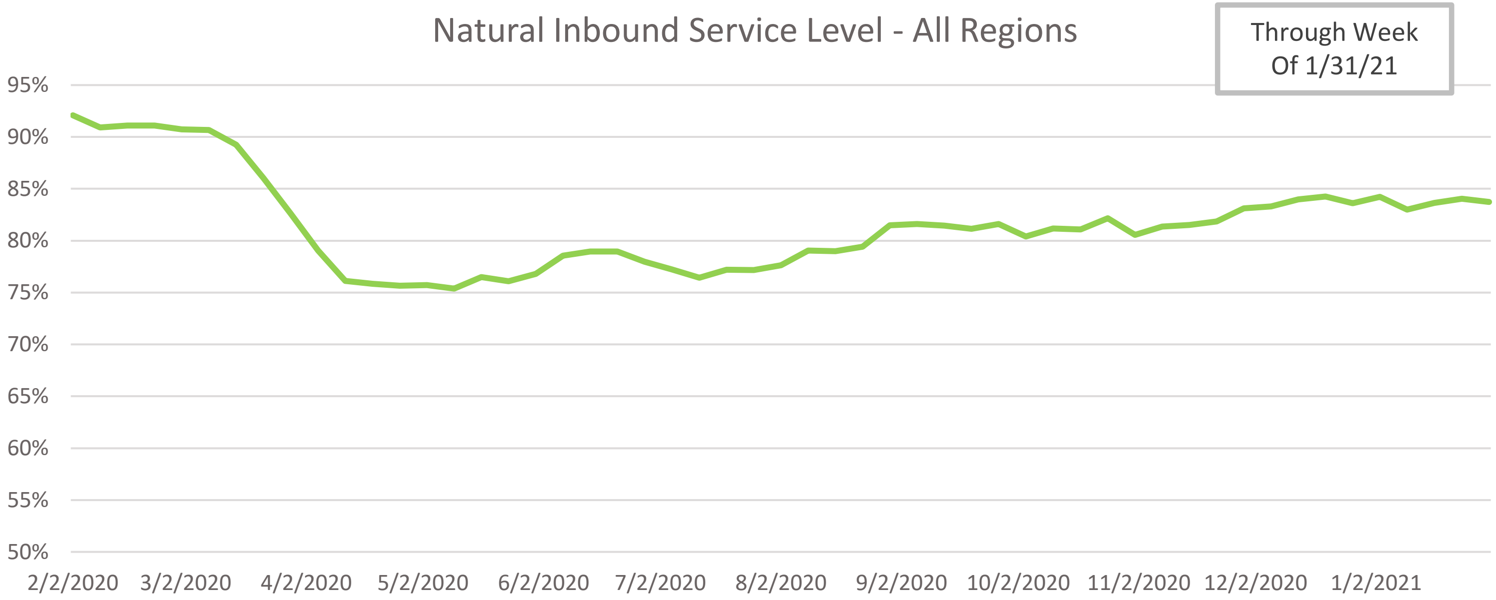
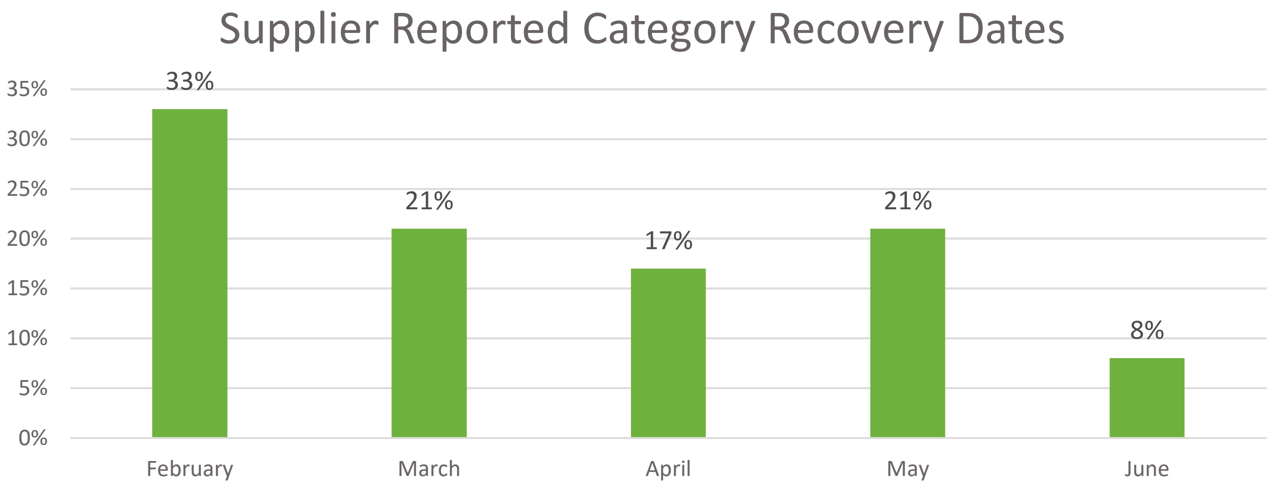
Service Level Recovery



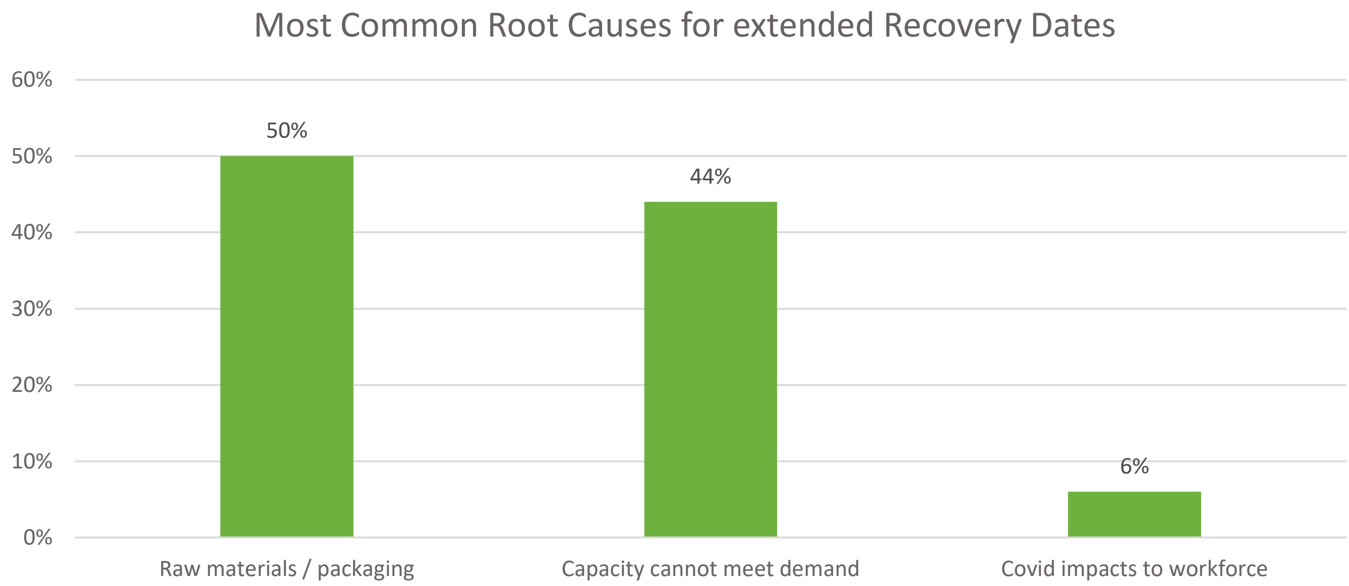
- Progress slowed at start of Holiday season, due to shortages of key seasonal items (organic butterfat, spices, broths)
- Expected strong post-holiday recovery has not materialized; most key impacted suppliers have pushed out recovery dates
- Supplier performance overstated due to some paused items, and orders to allocations

Supplier Recovery Perspective, Most Challenged Categories



- This month, Natural supplier recovery guidance has worsened, with 41% of category guidance pushed to later in 2021. From December 2020 to January 2021, 54% of key suppliers extended recovery dates.
- In general, recovery guidance provided from Summer 2020 to present has most often not been realized

Key Category Recovery Dates



- Raw material challenges represent the greatest impact to Natural suppliers, driven by limited Organic ingredients and occasional packaging issues
- Natural suppliers have found it difficult to secure additional third-party production capacity, or stand up new internal production lines on expected timelines

Most Impacted Categories – Supplier Guidance

Category	Status	Recovery Date
CHILL - BUTTER/SOFT CHEESE		Jun-21
FROZEN-PIZZA		Late Apr/Early May 2021
FROZEN - MAIN (HANDHELD/NON-HANDHELD)		Late Apr/Early May – June 2021
GROCERY-SPICES & SEASONINGS		Apr-21
GROCERY - SOUP		Mid-April - Mid May 2021
GROCERY - MAINS & SIDES		Mar – May 2021
SUPPLEMENTS - VITAMINS : LETTER VITAMINS/MINERALS/AMINOS		Apr-21 Pfizer (Emergen-C) - TBD
NONFOODS - HOUSEHOLD CLEANERS: DISH/LAUNDRY/SURFACE & AIR FRESHENERS		May-21
NONFOODS - PAPER PRODUCTS		Mar – May 2021
CREAM AND CREAMERS		End of Q1 2021
CHILL-PACKAGED MEAT		Feb – Apr 2021
CHILL-MILK: DAIRY BASED		Mar-21
GROCERY - BAKING & CAKE DECORATING		Feb-21

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Most Impacted Categories - Supplier Guidance

Category	Status	Recovery Date
GROCERY - CANNED FISH & MEAT		Mar-21 Anchovy – Sep 2021
GROCERY - GRAINS		Now – Mar 2021
GROCERY -PASTA SAUCE		Feb – Mar 2021
PERSONAL CARE - SOAP: LIQUID & BAR		Q1 2021
CHILL - EGGS		Now
CHILL-RETAIL CHEESE		Now
CHILL - MILK - PLANT BASED		Feb-21
FROZEN - FRUIT		Now
FROZEN - VEGETABLES & SIDES		Now
GROCERY –PASTA		Now
PERSONAL CARE - FIRST AID & HEALING		Now
PERSONAL CARE - BATH & SHOWER		Now

- Guidance is best current info available
- Past guidance changes have been affected by both internal and external unanticipated supplier headwinds, such as availability of suitable third-party line time, raw material shortages, Covid impacts to workforce, greater demand than anticipated, and others

Shopping Trends

Shopping Pattern Changes

- Rise of Online Shopping
- Fewer, Quicker Store Visits
- Less Selection, Paused Items
- Comfort Foods Focus

Reduction of store browsing, sampling, store trips/time, and focus on quick repurchasing drives:

- Less innovation
- Fewer new brands
- Fewer sku’s on shelf
- Reinforcement of current eating patterns

Changes in Consumer Behavior
Cleaning and Disinfecting Focus

- Heightened awareness of protecting against germs
- Increased usage and new cleaning routines drive permanent changes in hygienic practices

Retail Strategies

- Product diversity that emphasizes antibacterial callouts
- Sku rationalization of products without those callouts to allow greater pack out for top demand items
- Positioning of Wipes at the end of one-way aisles to draw consumers in
- Impulse register placements of sanitizers/cleaners, tissues, feel better products like teas, vitamins, cold medicines etc.

Changes in Consumer Behavior
Remote Working Prevalence

- HRDailyAdvisor.com estimates 30-40% of those working remotely will continue to do so
- Breakfast is the most impacted meal of the day and will be more frequently consumed at home, displacing prior out of home drive thru/ grab and go occasions.

Retail Strategies

- Expand space for, and diversity of, categories to support breakfast and lunch at home eating
- Categories to consider
  - Coffee
  - Yogurt
  - Juices and Teas
  - Cereals
  - Baked Goods

Changes in Consumer Behavior
Consolidated Shopping: Fewer Stores, Targeted Shopping Lists

- Less time allocated to shopping trips and fewer stores shopped drives consumers to frequent retailers that can meet many of their needs

Retail Strategies

- Focus on supporting consumer’s needs in one visit through thoughtful product selection
- Secure share of club market demand through strategically offering value size packs
- Ensure private brand offerings in key categories, as uneven economic impact driving many consumers to value offerings

Changes in Consumer Behavior
Expansion of eCommerce and Online Ordering

- Five years of expected migration to these tools has happened in less than one year
- Consumers have created account, are familiar with the process, and have embraced the option
- eCommerce lends itself to center store more readily than perimeter

Retail Strategies

- Focus on/ expand perimeter departments
- Transparency of ingredients and safe handling/marketing of items
- Rethink category space allocations, driven by changed consumer trends and anticipated lower sku count as numerous paused items do not return to the shelf
- If applicable, market family owned and/or local aspects to drive differentiation
- Single category shelf sets based on primary function, minimizing the number of locations for the same type of product
  - Unlocks space needed to expand facings/ set sizes
  - Targeted Shopping lists can be more efficiently filled
  - Allows consumers to shop all products in one location, mimicking online keyword searches

Changes in Consumer Behavior
New Consumer Skills in Personal Care

- Many consumers expanded personal care selfcare, driving greater demand for in home products

Retail Strategies

- Utilize UNFI Self-Care Strategies, ***https://discover.unfi.com/selfcareseries/***
- Certified Cruelty Free ***https://www.leapingbunny.org/*** continues to drive sales growth in the category
- Desired Effects callouts/signage perceived by consumers as instant gratification (calming, soothing, nourishing, etc.)
- Functional benefits signage focus on longer term solutions (hydrating, clarifying, moisturizing, detoxifying, etc.)
- "Free From" questionable ingredients (chemicals, silicones, etc.) signage
- Expand affordable luxury – hair color, nail color, spa-like items

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Supplier Best Practices

- Strategic, temporary sku reductions continues to be the single most important key to success for many suppliers
- Clear, insightful, frequent communications to the trade – product availability, action plans, recovery dates, handling of paused items
- Quality of guidance – traditional non-Covid day to day challenges often overlooked in future recovery timing (weather, transportation delays, etc.)
- Quickly reimplementing promo programs when supply position is strong; UNFI options include digital program options to deliver deals in a matter of days
- Thoughtful review of what paused items should return
- Focus on immediately rebuilding shelf placements, and plan-o-gram integrity, when consistent supply recovers
- Reintroduction of paused items… next page

Supplier Best Practices
Reintroducing Paused Items

- Send samples and/or coupons to consumers' homes
- Collaborate with retailers to bring consumer requests to market more quickly to compete with direct-to-consumer brands
- A simplified "less is more" label that clearly states the primary function, key ingredients, and attributes trending with consumers
- Economic disparities are affecting your consumers. Keep highly sought-after products affordable for consumers; consider introducing more values sizes. Also take these consumers into account when setting up your promotional calendars.
- Connect with beauty influencer bloggers, who can educate consumers and get information out quickly to a youthful audience that may be returning to in-store purchases of personal care at a faster pace than older, more vulnerable generations
- For supplements, Retailer education and transparency are key. Be the gatekeeper by helping them navigate a complicated department, new/emerging trends, and industry insights.

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